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In the Supreme Court of the United States

OCTOBER TERM, 1972.

No. 72-831

UNARCO INDUSTRIES, INC. and OVERHEAD DOOR CORPORATION,

Petitioners,

vs.

KELLEY COMPANY, INC.,

Respondent.

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

This Brief is submitted by Respondent, Kelley Company, Inc., in opposition to the Petition for a Writ of Certiorari filed by Unarco Industries, Inc. and Overhead Door Corporation, Petitioners, and docketed on December 6th, 1972, for review of the Judgment of the United States Court of Appeals For The Seventh Circuit in this matter entered on September 7th, 1972 and reported at 465 F.2d 1303 (7th Cir. 1972).

STATEMENT OF THE CASE

The facts of the case were stipulated. However, Petitioners' mischaracterization of the stipulated facts requires a restatement.

The patent license agreement which is the subject of this dispute was granted by Kelley Company, Inc., under Kelley patents, to Unarco in settlement of patent infringement litigation brought by Kelley against Unarco for infringement of the very patents under which the license was ultimately granted (Stip. ¶¶7-9; R. 52-53).

Kelley Company is a Wisconsin corporation with its principal place of business at Milwaukee, Wisconsin. Its principal product is an adjustable "dockboard" which permits movement of merchandise from the bed of a truck to a loading dock; the dockboard is the invention of Mr. Garrett P. Kelley, the founder of Kelley Company (Kelley Dep. 4; A. 7).

Petitioner Unarco is an Illinois corporation, the "Sturdi Bilt" division of which engages principally in the manufacture of steel storage racks and components. Among other related activities in which the division engaged was the manufacture and sale of dockboards in conjunction with sales of storage racks (Sum. ¶1; R. 69, 73-74). The dockboard activities were a relatively small part of the total business of Unarco (Supp. Stip. ¶1; R. 73-74).

In 1964, Kelley commenced litigation against Unarco in the United States District Court for the Middle District of Tennessee for infringement of the Kelley patents relating to dockboards (Stip. ¶7; R. 52). In 1968, Kelley and Unarco agreed upon a settlement whereby, among

other things, Kelley granted Unarco a non-exclusive license under the patents which were under dispute (Kelley Dep. Pl. Ex. 1, 2). The license was granted as an accommodation to Unarco, to enable Unarco to make and sell the dockboards required in connection with the sale of other products by Unarco without adversely affecting the business of Kelley (Supp. Stip. ¶1; R. 73-74; A. 7).

During 1968 the Petitioner Overhead Door Corporation contacted officers of Kelley Company with a proposal that Kelley Company be merged or acquired by Overhead Door in order to permit Overhead to enter into the business of the manufacture and sale of dockboards (Stip. ¶14; Sum. ¶4; R. 54, 70). After a few meetings with representatives of Overhead Door, Kelley informed Overhead that it was not interested in merger or acquisition by Overhead Door (Stip. ¶14; Sum. ¶4; R. 54, 70).

Thereafter, failing agreement with Kelley, Overhead Door contacted Unarco in order to purchase the license rights under the Kelley patents granted to Unarco in the settlement (Stip. ¶ 15; R. 54-55). On August 4, 1969, Overhead Door and Unarco entered into a contract whereby Overhead Door was to purchase the license under the Kelley patents together with the inventory and equipment used by Unarco in the manufacture of dockboards. Unarco was required to warrant that the license under the Kelley patents was assignable, and to give hold harmless and indemnification agreements with respect thereto (Kelley Dep. Pl. Ex. 6). When the contract between Unarco and Overhead came to the attention of officers of Kelley Company, Mr. Garrett P. Kelley promptly informed Unarco and Overhead Door that the license granted under the Kelley patent in settlement of the infringement litigation "was and is limited to Unarco." (Kelley Dep. Pl. Ex. 5).

Thereafter, on October 20, 1969, three days prior to the time the license agreement was actually assigned by Unarco to Overhead Door (Kelley Dep. Pl. Ex. 8; A. 8 n.3), Unarco and Overhead Door commenced this action for declaratory judgment with respect to the assignability of the non-exclusive patent license without consent of the licensor.

Trial was had upon stipulated facts and briefs of counsel before the United States District Court For The Northern District of Illinois, Eastern Division. The District Court found for the Petitioners, Unarco and Overhead Door. The judgment of the District Court was reversed by the Court of Appeals For The Seventh Circuit, and the Petitioners subsequently filed the present Petition for a Writ of Certiorari.

QUESTION PRESENTED

The "contested issue" as stipulated by both parties before the District Court (R. 71), and decided by the Court of Appeals (A. 6), is as follows:

> Where a licensee has a non-exclusive license to make, have made, use and sell equipment coming within the scope of the claims of certain patents, may the licensee legally assign his rights to a third party without the consent of the licensor. (Sum. of Facts ¶10; R. 71)

The factual context of the question as originally presented was, of course, that the license was granted to the licensee in settlement of patent infringement litigation involving the very patents under which the license was granted.

The questions now presented by Petitioners are substantially more elaborate than those originally expressed. More important, in an apparent attempt to shift the emphasis

from the question as originally presented, the questions now presented by Petitioners are predicated upon an inaccurate characterization of the facts of the case, particularly in view of some of the authorities cited in the Petition and the case law under which Petitioners are requesting this Petition be granted.

Each of the questions presented by Petitioners assumes as a factual context a "sale of the assets of an entire business." (Pet. 2) Unarco did not by any means sell the assets of its business to Overhead. As expressed in the decision of the Court of Appeals:

> . . . Unarco was not a serious competitor in the dockboard industry. Unarco's principal interest was to use dockboard as a selling tool for its principal product which was shelving. 465 F.2d at 1304; App. 7

Unarco sold only a portion of its "Sturdi Bilt" division when it sold the dockboard assets to Overhead (R. 69), and according to the stipulation between the parties, "Unarco's dockboard business was a relatively small part of its total business." (Supp. Stip. ¶1; Sum of Facts ¶1; R. 73, 74). The Agreement itself recited that Overhead desired to purchase "certain of the assets used by Unarco's Sturdi Bilt Division in the manufacture of Dock Boards," and Overhead did not assume liabilities of Unarco (Kelley Dep. Pl. Ex. 6). Overhead may have purchased license agreements and inventory from Unarco, but it did not buy the "entire business" of Unarco.

The questions presented by Petitioners are not the questions presented by the facts of this case.

REASONS FOR DENYING THE WRIT

1. THE DECISION OF THE COURT OF APPEALS DOES NOT CONFLICT WITH THE DECISION OF ANY STATE COURT AS TO THE APPLICABILITY OF FEDERAL OR STATE LAW TO DETERMINE THE VALIDITY OF AN ASSIGNMENT OF A PATENT LICENSE WITHOUT CONSENT OF THE LICENSOR.

First, a supposed conflict between a decision of a state court applying state law and that of a federal court of appeals applying federal law is not generally considered to be a basis for issuance of a Writ of Certiorari (Rule 19, Rules of the Supreme Court). For this reason alone, the first reason set forth by Petitioners for granting the Writ should be disregarded.

Moreover, the conflict between state and federal decisional law which the Petitioners propound is nonexistent. The conflict is alleged to stem from the decision of the California Supreme Court in *Farmland Irrigation Co.* v. *Dopplmaier,* 48 Cal. 2d 208, 308 P.2d 732 (1957).

The *Farmland* case was decided upon the basis of rules of contract construction, and involved matters of state law. The decision states the premise that *patent rights* must be distinguished from *contract rights,* such as specific performance or payment of royalties under a contract, the latter being matters of state law under the doctrine of *Erie R. Co.* v. *Tompkins,* 304 U.S. 64, 82 L. Ed. 1188 (1938) See *Farmland,* 308 P.2d at 737.

The decision of the Court of Appeals in this present matter, which involves directly the *patent rights of Kelley,*

is not at all in conflict with this premise of the *Farmland* decision. Rather, it implements an observation in the *Farmland* decision, expressed as follows:

> Even if state law governs the basic elements of the plaintiff's case in an action to recover royalties on a license, *it does not follow that every issue in the case, including the assignability of the license, is governed by state law.* [citations omitted]. *If the policy of the patent laws or some other federal statute requires it, state law must of course give way.* [citations omitted]. Moreover, the absence of any specific statutory provision governing the issue does not in itself mean that federal law does not control, for *if the policy of the federal statute or the implications of the federal system require a uniform rule of decision, the federal courts have paramount power to fashion such a rule. Farmland, supra,* at 739. [Emphasis supplied].

The Court of Appeals in its decision recognizes the uniform federal policy regarding the assignability of patent licenses as well as the absence of conflicting state law, and applies the federal rule of law that patent license agreements are personal to the licensee and are not assignable unless expressly made so, as expressed in a long and unbroken line of federal decisions. See, *e.g., Troy Iron & Nail Factory* v. *Corning,* 55 U.S. (14 How.) 193, 14 L. Ed. 383 (1852) (license claimed in compromise of litigation); *Hapgood* v. *Hewitt,* 119 U.S. 226, 30 L. Ed. 369 (1886); *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193, 37 L. Ed. 1049 (1893); *Wood Harvester Co.* v. *Minneapolis Harvester Co.,* 61 F. 256 (8th Cir. 1894); *Haffcke* v. *Clark,* 50 F. 531 (4th Cir. 1892); *Bowers* v. *Lake Superior Contracting,* 149 F. 983 (8th Cir. 1906) (a "well-established rule" in 1906); *Kenyon* v. *Automatic Instrument Co.,* 63 F. Supp. 591 (W.D. Mich. 1945), reversed on

other grounds, 160 F.2d 878 (6th Cir. 1947); See also *Deller's Walker on Patents*, Sec. 409 (2d Ed. 1965); Risdale Ellis, *Treatise on Patent Licenses*, Sec. 410, 416 (Deller 3d Ed. 1958); *Robinson on Patents*, Sec. 823 (1890).

The rule has been strictly adhered to by state and federal courts alike, including decisions in the State of Illinois. *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893); *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898); *Smith* v. *Preston*, 170 Ill. 179, 48 N.E. 688 (1897). See Anno., "Assignability of Licensee's Rights Under Patent Licensing Contracts," 66 A.L.R. 2d 606 (1959) and citations collected therein.

The Court of Appeals held:

> We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question.
>
> We agree with Kelley that we are here considering a specific policy of the patent law dealing with federal patent rights, and in that respect our problem does not involve the general state of Illinois contract law.
>
> The long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement. [Citations Omitted] A. 10; 465 F.2d at 1306.

The ultimate question for decision here is whether Overhead is entitled to manufacture and sell products which are covered by valid patents held by Kelley. Thus, the very essence of the federal patent right granted to Kelley by federal law is the subject of the dispute between these par-

ties, and the Court of Appeals was correct in holding that the federal law pertaining to assignability of license agreements is applicable in the present instance.

There would be no doubt as to the appropriateness of the decision of the Court of Appeals in this regard if Unarco and Overhead had not been the first to resort to the courts with this declaratory action, and Kelley had instead brought action against Overhead for infringement of the Kelley patents. A defense based upon the existence of a license agreement would not change the character of the action from that of an infringement suit under the patent laws to an action amenable by recourse to state law. *Wood Harvester Co.* v. *Minneapolis Harvester Co.*, 61 F. 256 (8th Cir. 1894).

In the *Wood* case the Court stated "the existence of the right to manufacture being directly involved, the controversy grows out of the patent laws, and this Court has jurisdiction." 61 F. at 258.

The facts in the *Wood* case are substantially identical to those in the present instance, except that the license there was given under motivation of royalties only, and not in settlement of litigation. The license agreement contained nothing pertaining to assignability, and the plaintiff patentee maintained that the license was therefore not assignable as a matter of law. The court found as follows:

> The question which must control is: Was the license of November 7, 1879, assignable, or was it personal to [licensees]. Upon careful examination I do not find any words that carry power to assign this license: nowhere do the words "heirs," or words of similar import, appear. It is well established that a license by a patentee is personal to the licensee, and not transferable to another, unless it contains words which show

> that it was intended to be assigned. I think *the absence of any words of assignability in this license shows an intent to make it run to* [*licensees*] *alone, as clearly as if words of nonassignability had been incorporated therein. Wood,* at 258. [Emphasis supplied]

It has not been disputed either in this action or in the *Farmland* decision that the federal rule of law that a patent license is not assignable unless *expressly* made so is one that has been well established by use as well as by time.

The rule of nonassignability of patent licenses was certainly clear prior to the *Erie* decision in 1938; furthermore, the rule has not been questioned in the federal courts since *Erie.* On the contrary, the rule of nonassignability was recognized in *Kenyon* v. *Automatic Instrument Co.,* 63 F. Supp. 591 (W.D. Mich. 1945); and in *Rock-Ola Mfg. Corp.* v. *Filbin Mfg. Co.,* 168 F. 2d 919 (8th Cir. 1948), *cert. denied,* 335 U.S. 892, the Court was given opportunity to review the federal rule of nonassignability, but denied certiorari.

Erie did not convert the rule governing the assignability of *licenses under federal patents* from *federal* control to *state* control.

The *Erie* case clearly set forth the exception to the application of state law here pertinent in the following language:

> *Except in matters covered by the Federal Constitution or by Acts of Congress,* the law to be applied in any case is the law of the state. *Erie,* 304 U.S. at 78. [Emphasis supplied]

This exception is explained and its breadth established in cases subsequent to *Erie,* in which the application of "fed-

eral common law" in diversity cases has been required. This Court, in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, 87 L. Ed. 165 (1942), considered a patent license agreement in relation to the federal antitrust laws. The Court there stated:

> [In the *Erie* decision] we followed state law because it was the law to be applied in the federal courts. *But the doctrine of that case is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes,* rather than by local law. *Sola*, 317 U.S. at 176 [Emphasis supplied]

For similar holdings, see *Kelly* v. *Kosuga*, 358 U.S. 516, 3 L. Ed. 2d 475 (1959); *O'Brien* v. *Western Union*, 113 F.2d 539, 541 (1940); *T. B. Harms Co.* v. *Eliscu*, 339 F.2d 823 (2d Cir. 1964), *cert. denied*, 381 U.S. 915 (1965).

The case of *American Manufacturing Co.* v. *Witter*, 343 S.W.2d 943 (Tex. Civ. App. 1961), also cited by Petitioners as a case in conflict with the decision of the Court of Appeals, is inapposite, since the license there considered expressly permitted assignment, and the case dealt with payment of royalties as a contractual question rather than a question arising under the patent laws.

It can readily be seen that there is no conflict between state and federal courts as to the applicability of federal law to this question. Moreover, even if state law were to be applied in order to determine the question, the Illinois precedents of *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893) and *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898), as the Court of Appeals noted, establish the undisputed law and policy of the State of

Illinois to be in accord with the federal rule with respect to assignment of patent licenses. Those decisions as applied to the present case would require a holding under state law that this license is personal and non-assignable, and would certainly not constitute "conflicting" cases so as to be a basis for issuance of a writ of certiorari.

The Petitioners have boldly cited a statement by the District Court to the effect that "There are no Illinois decisions of record relating specifically to the assignability of nonexclusive patent licenses." (Pet. 8).

The Court of Appeals cited the *Havana* and *Rhodes* cases in footnote, to illustrate that Illinois law was in accord with the court's decision as to the assignability of patent licenses, and mentioned the fact that these cases had not been called to the attention of the District Court (App. 11; 465 F.2d at 1307).

In *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893) an exclusive patent license was granted to an Illinois drill corporation. The corporation subsequently assigned the license to a major shareholder, who further assigned it to an Ohio corporation. The license was silent as to assignability, but provided that the license should terminate upon certain conditions. The Illinois Supreme Court held as follows:

> In the present case the drill company had no authority to assign the license for two reasons: (1) *Because the license to it did not run to its assigns, and was, therefore, merely personal . . . Havana*, 35 N.E. at 880. [Emphasis supplied]

Any question as to whether the *Havana* case established as Illinois law and policy the rule that a patent license is personal and not assignable unless expressly made as-

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signable, was resolved in *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898), a subsequent decision arising from the same transaction. The Supreme Court of Illinois there stated:

> *A [patent] license is not assignable, strictly speaking . . . Rhodes*, 52 N.E. at 120, 121.

If, as Petitioners contend, this controversy must be decided on the basis of Illinois law, then certainly the holdings of the *Havana* and *Rhodes* cases, which have not been questioned in Illinois since rendered, establish the law and policy of the State of Illinois as to assignment of patent licenses and must control. See also *Smith* v. *Preston*, 170 Ill. 179, 48 N.E. 688 (1897) (where a patent license was held nonassignable because of its personal nature).

The Petitioners have placed great emphasis upon the supposed general policy of free assignability of contracts under the law of the State of Illinois, and have implied that should state law apply, this general policy of free assignability would control the present controversy. In their presentation, Petitioners are, of course, forced to ignore specific Illinois decisions dealing with this specific area of law which declare patent licenses personal and nonassignable.

A postulate of contract construction was recognized in the *Farmland* decision; there it was stated that the intentions of the parties must be paramount:

> "This statement [as to the personal nature of the license agreement] should follow as a conclusion from an examination of the purposes and provisions of the particular license . . ." *Farmland*, 308 P.2d at 740.

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Application of this rule of contract construction would not change the result in the present case. The California Court in *Farmland,* upon examination of the license and the surrounding circumstances, concluded that the license was granted for purposes of royalty and profits, and that there were no indications that the license should be non-assignable. *Farmland, supra,* at 741-42. The license granted in the *Farmland* case was divisible. The licensee could grant further sublicenses under the license without the prior consent of the patentee. Personal control by the patentee was thereby expressly negated. This significant factor was relied upon in the decision. *Farmland,* 308 P. 2d at 735, 741.

However, in the instant case, the patent license was granted in settlement of litigation concerning infringement of the very patents under which the license was ultimately granted (Kelley Dep. Pl. Ex. 1). It cannot be disputed that Kelley was intent upon protecting its patent rights against infringement. Kelley was induced to grant the patent license in recognition of the expense and inconvenience of sustained litigation. This is quite different from a *sale* of license rights on the open market with profit as the motive, as was the case in *Farmland.*

Nor was the license to Unarco divisible. Unarco could not grant sublicenses without the consent of Kelley, as was the case in *Farmland.* Kelley did not relinquish its personal control as patentee.

The stated purpose of the license agreement here was to settle litigation. The personal aspects of settlement negotiations, particularly when one party will thereby be enabling the other as a competitor, cannot be disregarded. See *Troy Iron & Nail Factory* v. *Corning, supra,* 55 U.S. at 213.

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Kelley had not offered its license for sale. The fact that litigation was settled by means of a license agreement cannot be considered probative of a change of intention on the part of Kelley. The agreement as a matter of law and as a matter of the surrounding circumstances was a personal forebearance relating only to Unarco.

The terms of the license agreement itself are unique. The agreement enabled Unarco to produce 800 units in each calendar year without payment of royalty, only calling for royalties on dockboards produced thereafter. These terms are an accommodation to the precise needs of Unarco, enabling it to produce dockboards as required by Unarco as an ancillary product complementing its sale of storage shelves in a warehouse package, without adversely affecting the business of Kelley.

In point of fact, Unarco at all times subsequent to the settlement confined its production of dockboards to under 800 per year (402 in 1968 and 196 in 1969), and never paid royalty to Kelley (Stip. ¶13; R. 54; Kelley Dep. 18). This contemplated use of the license by Unarco was known to Kelley at the time of the settlement (Supp. Stip. ¶2; R. 73-74). If Unarco had been, or intended to be, a major competitor with Kelley in the production of dockboards, certainly Kelley would not have granted the license, but would have continued with infringement litigation.

The provisions of the license granted by Kelley to Unarco in settlement of patent infringement litigation, and the surrounding circumstances, including the purpose of the license, abound with indications of the personal nature of the license agreement and the fact that it was not intended to be assignable.

Thus, even utilizing the basis for decision advocated by Petitioners, there is no conflict between the *Farmland* decision and that of the Court of Appeals.

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The *Farmland* decision both admits the supremacy of the federal law in areas of federal concern, and propounds criteria for decision under state law and rules of contract construction which are in complete harmony with the decision of the Court of Appeals upon the facts presented in the present case.

There is no conflict whatsoever between the positions of the California Supreme Court in the *Farmland* decision and the Court of Appeals in the decision rendered below, much less an "irreconcilable" conflict as alleged by Petitioners.

2. THE DECISION OF THE COURT OF APPEALS DOES NOT CONFLICT WITH ANY DECISION OF THE COURT ON THE QUESTION OF THE ASSIGNABILITY OF A PATENT LICENSE IN CONNECTION WITH THE SALE OF A BUSINESS.

Petitioners contend that the decision of the Court of Appeals is in conflict with the decision of the Court in *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193, 37 L. Ed. 1049 (1893). The *Lane & Bodley* case was briefed to the Court of Appeals, and the case was not applied to the present circumstances for the simple reason that the facts of this case do not come within the principles set forth in that case.

The *Lane & Bodley* case deals with an equitable shop right to use a patented item, and not an express license. *Locke,* the patentee, disputed the use of the shop right by a successor corporation, "Lane & Bodley Company," organized to continue the business of a predecessor partnership, "Lane & Bodley," both of which entities had em-

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ployed him. The Court upheld the rights of the successor corporation to the shop right on several grounds, one of which was a long time ratification by the patentee of the use of the shop right by the corporation. The Court did not change and in fact expressly affirmed the principle that an express patent license cannot be assigned without the consent of the licensor. The Court cited *Hapgood* v. *Hewitt*, 119 U.S. 226, 30 L. Ed. 369 (1886), *Troy Iron & Nail Factory* v. *Corning*, 55 U.S. (14 How.) 193, 14 L. Ed. 383 (1852) and *Oliver, Finnie & Co.* v. *Rumford Chemical Works*, 109 U.S. 75, 27 L. Ed. 862, which established this principle, and said:

> We see no reason to disturb those cases; yet we do not feel compelled to extend their ruling to cover the present case. [a shop right].
>
> It may well be that an express license, set forth in terms, is not assignable unless it is so provided in the instrument. 150 U.S. at 196.

Thus, the language of the Court quoted by Petitioners to the effect that "we do not feel compelled to extend the ruling" (Pet. 12) is directed only at situations involving shop rights or equitable licenses, and not express licenses, in which latter case the rule would remain that the licenses would be personal and nonassignable unless expressly made so. The Petitioners have taken the quote completely out of context and have misinterpreted it.

The *Lane & Bodley* case is not applicable to an attempted transfer of an express patent license, whether or not in connection with a sale or purchase of other assets. It applies only when a shop right is involved and the claimant as "successor" is identical to the predecessor or maintains a continuity of identity with the predecessor through incorporation, reorganization, merger, consolidation, or

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similar device. The case has never been applied in circumstances such as the present. See, e.g., *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193, 37 L. Ed. 1049 (1893) (A *shop right* passing from a partnership to a successor corporation formed of and by the same principals); *Neon Signal Devices* v. *Alpha-Claude Neon,* 54 F.2d 793 (D.C. Pa. 1931) (A *shop right* arising from the patentee's employment by both an original corporation and a successor corporation, the latter formed to take over the assets and the liabilities and continue the entire business of the original corporation, which ceased doing business completely); *Papazian* v. *American Steel and Wire Co.,* 155 F. Supp. 111 (E.D. Ohio 1957) (*Shop right* involved in merger); *Wilson* v. *J. G. Wilson Corp.,* 241 F. 494 (E.D. Va. 1917) (*Shop right* and successor corporation which only changed the name of predecessor corporation); *Gate-Way, Inc.* v. *Hillgren,* 82 F. Supp. 546 (S.D. Cal. 1949) (*Shop right* and clear distinction between "complete succession to the entire business" and "transfer" of the business.); *Lightner* v. *Railroad Company,* 1 Lowell 338, Fed. Case 8,343 (CC Mass. 1869) (A railroad company formed by the consolidation of two prior railroad companies). See also, *Dunkley Co.* v. *California Packing Co.,* 277 F. 996 (2d Cir. 1921); *Niagara Fire Extinguisher Co.* v. *Hibbard,* 179 F. 844 (7th Cir. 1910); *Hartford-Empire Co.* v. *Demuth Glass Works, Inc.,* 19 F. Supp. 626 (E.D. N.Y. 1937).

The present case does not involve a shop right, and Overhead is not a "successor" of Unarco; it did not continue the business of Unarco or assume its liabilities, and could not be considered the same entity. Rather, this was a sale and purchase of a license negotiated between two stranger corporations. Moreover, this was hardly the sale of an entire business, since Unarco sold to Overhead only the dockboard assets of the Sturdi Bilt division, "a relatively small part of its total business" (Supp. Stip. ¶1; R. 73-74). Unarco continued doing business as usual.

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Petitioners argue that this Court should re-examine the "19th Century cases" relied upon by the Court below in the light of modern business transactions, because these cases may jeopardize modern business acquisitions. However, this Court can assume that even "modern" business is run in accordance with established law. Only when businessmen attempt to circumvent the law and the rights of others by thinly disguised schemes such as utilized in this case will they run afoul of the law, and properly so.

Modern business needs do not require a change in the law. A patent license is nothing more than a waiver or a forebearance of a patentee's right to sue for infringement. The personal nature and aspects of a patent license today have their foundation in the constitutional provisions providing inventors temporary exclusive rights to their discoveries, just as in the 19th Century. U.S. Const. Art. I §8. The exclusive patent rights of the inventor include the concomitant right to choose in his complete discretion those to whom he shall extend rights under his patent monopoly. When the inventor intends to remain in business and utilize his own patent rights, by granting a patent license he chooses his competitor. The personal nature and the concept of the nonassignability of a patent license have developed from this inherent and basic monopolistic concept of federal patent law. It is not a general policy of "federal law" which establishes the nonassignability of contract rights in general. It is a *specific policy of federal patent law* dealing with federal patent rights.

Clearly, modern business is no more jeopardized by this decision than it is by the insertion of a provision of nonassignability in a license agreement. If assignability is desired by the parties to a transaction, it is something that

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should be bargained for and knowingly entered into. The present license agreement was not so entered into by Kelley. The business community should be entitled to, and in fact does, rely and depend upon the well established rule of nonassignability.

There are neither legal nor public policy considerations which would justify a grant of certiorari on the grounds set forth by Petitioners.

3. THE DECISION OF THE COURT OF APPEALS IS NOT IN CONFLICT WITH THE DECISION IN T. B. HARMS CO. v. ELISCU, 339 F.2d 823 (2d Cir. 1964), cert. denied, 381 U.S. 915 (1965).

The *Harms* decision deals only with a question of federal jurisdiction in the absence of diversity of citizenship, and is not in any manner in conflict with the decision of the Court of Appeals.

In fact, the *Harms* decision appears to go even further than the decision of the Court of Appeals in the present case, and in the same direction. Petitioners have either misread or failed to understand the case. The crucial issue was not "the validity of a purported assignment" (Pet. 14), but rather, "The crucial issue is whether or not Eliscu executed the assignment to Dreyfus . . ." 339 F.2d at 827. The Court held the issue to be one of contract law which, although involving a copyright, did not give rise to federal jurisdiction. (339 F.2d at 827-28).

The Court stated as follows:

> A new and dynamic doctrine, taking its name from *Clearfield Trust Co.* v. *United States,* 318 U.S. 363 (1943) instructs us that even in the absence of express statute, *federal law may govern what might seem an issue of local law because the federal interest is domi-*

sant (citing *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942)). . . . If this "federal common law" governed some disputed aspect of a claim to ownership of a copyright or for the enforcement of a license, federal jurisdiction might follow. . . . 339 F.2d at 828. [Emphasis added].

The holding of the Court is expressed as follows:

> We think that an action arises under the Copyright Act if and only if the complaint . . . at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim. 339 F. 2d at 828.

There is no conflict between the decision of the Court of Appeals and the *Harms* decision which would justify the granting of a writ of certiorari in the present instance.

4. THE DECISION OF THE COURT OF APPEALS IS NOT IN CONFLICT WITH THE DECISION IN BRUNSWICK CORPORATION v. CHRYSLER CORPORATION, 408 F.2d 335 (7th Cir. 1969).

The Petitioners characterize the *Brunswick* case as establishing the principle that a purchaser of assets is bound *both* by a consent decree, binding on the seller, and any license arising from the settlement which lead to the decree. However, an examination of the record in the case discloses that no assignment of a patent license was even involved. In fact, the purchaser had purposefully chosen not to accept assignment of the license.

Specifically, the question presented for decision in the *Brunswick* case was whether a consent decree entered in patent infringement litigation constituted *res judicata* as between subsequent parties in interest. The Court stated: "We hold that by reason of the consent decree, the issues

of validity and infringement of Patents Nos. '007 and '226 were *res judicata* as to the West Bend Company and to others who may be in privity with that company." 408 F. 2d at 338. Then: "We must determine whether Chrysler has succeeded in interest to the subject matter of the prior decree." *Id.* The Court found that "Chrysler does stand in the shoes of the West Bend Company with respect to the decree." *Id.*

The holding of the Court was specifically limited to the subject matter of the consent decree and the question of *res judicata*. The case does not deal with the assignability of patent licenses, nor relate to the validity of an assignment of a license to a stranger corporation, nor does it hold that a purchaser of a business, by virtue of that alone, is entitled to assignment of patent licenses. *Clark* v. *Jones & Laughlin Steel Corp.*, 288 F.2d 279 (7th Cir. 1961), *cert. denied*, 368 U. S. 828 (1961), also cited by Petitioners, is to the same effect in that it deals with principles of *res judicata*, and not the assignment of patent licenses.

Again, there is no conflict between these decisions and that of the Court of Appeals which would form a basis for issuance of a writ of certiorari.

CONCLUSION

The Petition for a Writ of Certiorari to review the Judgment of the Court of Appeals for the Seventh Circuit should be denied for the reason that the Petitioners have not substantiated any reason justifying issuance of a writ of certiorari by this Court.

Respectfully submitted,

ELWIN J. ZARWELL
JOHN S. SAMMOND
DAVID L. PETERSEN
Attorneys for Petitioners